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Fallout From 'Spy Game'

Arrests Lead to Unwanted Confrontation

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It started as just another episode in the covert battle between rival intelligence services over the rules of the "spy game" and suddenly mushroomed into a confrontation of major diplomatic proportions that neither side apparently wanted or anticipated.

With no show of concern for the possible political fallout on presummit jockeying, the Federal Bureau of Investigation on Aug. 23 arrested Gennadi Zakharov, a low-level Soviet spy recruiter winding up a four-year tour of duty with the United Nations in New York. He was jailed without bail and charged with espionage after allegedly taking three classified documents from an FBI collaborator he had been cultivating as a source.

A week later, the Soviets retaliated, acting with apparent symmetry, by seizing and imprisoning American correspondent Nicholas Daniloff, who was ending a 5½-year stint in Moscow for U.S. News & World Report. Daniloff was surrounded by KGB agents moments after a Russian he thought was a friend handed him an envelope containing two films marked "secret."

In the ensuing two weeks, the Reagan administration issued a series of muddled and sometimes conflicting statements about its reaction to Daniloff's arrest and what it intended to do.

At first it did not rule out the possibility of some kind of deal, then rejected any trade but finally accepted equal treatment as "an interim step." On Friday, Daniloff and Zakharov were released into custody of their nations' respective ambassadors.

By accepting the Soviet suggestion to release both men, the Reagan administration has temporarily defused the tension. But its handling of the issue has evoked a torrent of criticism from allies and foes on Capitol Hill, with conservatives inside and outside the administration charging that it has sold out on the president's promise of "no trade," or will do so if it cannot win Daniloff's freedom without a trade for Zakharov.

"Could you imagine what we [conservatives] would be doing if Jimmy Carter had done this?" one Reagan political appointee remarked yesterday. "Impeachment would be too easy," he added.

Initially, the two nations' security services, the FBI and the KGB, appeared to be calling the shots. In the United States, top political leaders were either on vacation or apparently unaware that decisions were being made that clearly might upset the larger U.S.-Soviet relationship; the same may have been true in Moscow.

Following embarrassment over the Walker family spy ring, the mishandling last fall of Soviet defector Vitaly Yurchenko—a KGB agent who defected and then went back home—and then the defection of ex-CIA agent Edward L. Howard to the Soviets, the Reagan administration and particularly the FBI were under considerable pressure to recoup against the Soviets.

One well-publicized response was the FBI's apprehension early this summer of the Soviet air attache here as he was caught in the act of picking up classified documents. He was quickly expelled.

The arrest of Zakharov, said a Senate intelligence committee source, was "done for domestic consumption to show we are really doing something and the United States is on top of this spy thing."

Now President Reagan and Soviet leader Mikhail Gorbachev have asserted personal control. Reagan is clearly seeking to limit the diplomatic impact of the arrests on presummit diplomacy, and Soviet spokesmen say repeatedly that they consider the arrests a minor matter. But the secret war between rival secret services continues with the release of the two men temporarily caught up in that diplomacy.

By all accounts, the decision to have the FBI hand Zakharov a package of classified documents and then arrest him after three years of surveillance was handled as a routine matter. There was no interagency disagreement or hesitancy over the action, and the officials involved recognized that some form of Soviet retaliation was likely, according to administration officials.

There was apparently no discussion about the implications of jailing Zakharov—apparently a key step in the eyes of the Soviets—which Justice Department sources said was handled under a Reagan administration policy that all Eastern Bloc citizens arrested for espionage be held without bail. Zakharov's lawyer later complained that this was a break with precedent in the handling of such cases.

Administration officials insist that the decision to arrest Zakharov was approved at a "very high level" within the government, as one put it, and that the interagency discussions before the decision "took into account the possibility of retaliation."

"But there was no way of predicting against whom," he said. "It was decided both sides were going to do what they were going to do."

Apparently the decision to arrest Zakharov did not reach the president, Secretary of State George P. Shultz or White House chief of staff Donald T. Regan, according to administration officials.

The FBI decision was reviewed at an interagency meeting in mid-August that included Rodney McDaniel, National Security Council executive secretary and third-ranking member of the NSC staff, and Michael H. Armacost, undersecretary of state and third-ranking State Department official, according to administration officials. McDaniel later informed national security affairs adviser John M. Poindexter, a knowledgeable official said.

The decision to apprehend Zakharov was "not presented as any big deal," according to one source, and was justified as part of a general crackdown on Soviet espionage in the United States, a step Reagan had authorized several months earlier.

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The Soviets, however, remain convinced that the decision to "entrap" and jail Zakharov was approved by Reagan, according to one Soviet diplomat. Most U.S. officials say they similarly believe that Soviet leader Gorbachev, who was on vacation, must have known about and approved the seizing of Daniloff.

The Zakharov/Daniloff incident has its roots in an ongoing secret "spy war" that has heated up over the past year with a spate of arrests, defections or trials of Soviets and Americans involved in the business. One basic step in this war is recruiting agents. Both sides do it regularly around the world and within each other's national territories.

In Washington's eyes, the Soviet Union has a major advantage because of the ease of operating in the United States. According to the FBI, the largest number of Soviet recruiters, or "spotters," is within the Soviet contingent in New York, made up of about 600 employes of the United Nations and another 275 stationed in the separate Soviet diplomatic mission to the world body.

The Reagan administration, under conservative pressure, has made this presence a major issue, calling it "a nest of spies." Last March, Reagan issued an unprecedented order demanding that the number of diplomats in the Soviets' mission in New York be cut to 170 by April 1988.

But because the Soviet contingent working at the United Nations itself is set by quota, the far larger number there cannot be cut back.

The Soviets, such as Zakharov, who have been arrested for spying have all been U.N. employes, not members of the mission that is the target of the U.S.-demanded cutback.

There are several unanswered questions about the FBI decision to move against Zakharov. His importance appears to have been largely symbolic; his recruitment of a Guyanese student in New York posed only a marginal threat to U.S. security interests, and he was about to return to the Soviet Union.

Zakharov, under FBI surveillance from the day he took the U.N. job, had for three years been cultivating the student to become a Soviet agent. The student, codenamed "Birge," was collaborating with the bureau during the whole period. Birge was working for a company doing unclassified defense work. His only access to classified information was what the bureau provided on the day of Zakharov's arrest.